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TAGS: [EFIN](#) [PARM](#) [PTER](#) [ETTC](#) [IR](#) [UK](#)  
SUBJECT: (S/NF) UK CONDUCTING STUDY OF IMPACT OF IRANIAN  
FINANCIAL MEASURES

Classified By: John McNamara, Counselor for Labor and Social Affairs, r  
easons 1.4 (b) and (d)

11. (S/NF) Summary. The Foreign and Commonwealth Office is doing a Top Secret study -- likely to get widespread attention within Her Majesty's Government -- of the real impact of Iranian financial measures. The study, which is intended to draw upon both open and closed sources, is intended to inform senior UK policy makers on the actual impact the financial measures are having on the Iranian people, business community, and regime. The lead author of the report, Christian Turner, intends to travel to Washington in May and will be seeking a wide array of meetings. End Summary.

12. (S/NF) The FCO is currently conducting an assessment of the impact financial measures -- including UN sanctions, targeted financial measures (such as the elimination of Bank Saderat's U-turn provision), and moral suasion -- is having on Iran and those institutions doing business with Iran. According to Christian Turner, the FCO's lead author, the report will draw upon open- and closed-source material to try arrive at some "hard conclusions" about the true impact -- political and economic -- of financial measures on Iran. He intends to look at the economic impact of financial measures on specific banks and companies, their broader psychological impact upon the business community, and their effectiveness in influencing the current regime. Turner said that he wants to get as broad of a picture as possible; he fears that much of the current reporting on Bank Sepah's difficulties might lead to the conclusion that financial measures are having a greater impact than they truly are. He acknowledges that it will be extremely difficult to obtain quantifiable data. But he intends to make a concerted effort to obtain hard data on what financial institutions are doing, if anything, beyond de minimus legal compliance with respect to Iran-related business.

13. (S/NF) Turner said that the study is the first step in a three-phase process. The study will provide some basic information on the overall effectiveness of financial measures. Once completed, it will serve as a tool to evaluate further possible measures to ratchet up the pressure on Iran if it does not comply with UN resolutions. The third phase would be a broader policy review of UK domestic authorities to see whether the UK can do anything to improve its ability to use financial measures as a foreign policy tool in a wider context beyond Iran, including with respect to counterproliferation more broadly.

14. (S/NF) As part of the study, Turner intends to travel to

Washington before the end of the month to meet with government officials, academics, and think tanks. His Washington schedule will be organized by Simon Shercliff at the UK Embassy in Washington. Embassy suggested meeting with NEA/IR, INR, S/P, and Treasury. Turner, who previously served at the UK Embassy in Washington, said that he would also seek meetings at the Congressional Research Service, NSC, Department of Defense, the CIA, and various policy institutes. Turner provided us with a non-paper (see below) regarding some of the specific questions he intends to explore in Washington. Turner also plans to travel to Dubai for meetings on this topic and would appreciate meeting suggestions from and the participation of the Iranian Regional Presence Office as feasible.

15. (C/NF) BEGIN TEXT OF NON-PAPER

IRAN: IMPACT OF FINANCIAL SANCTIONS

(1) Response of International Financial Institutions & Agencies

(a) Can we quantify the response of leading international banks, beyond their public statements? To what degree has the shift away from dollars stopped transactions with Iran? How much has simply shifted to Euros, Yen and other currencies?

(b) To what extent has short-term export credit been downgraded since December 06? What is the consequence and knock-on cost of this?

(2) Impact within Iran

(a) To what extent have Bank Saderat's operations been

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limited?

(b) Are there examples of major capital projects not going ahead in the first quarter of 2007?

(c) Is there any evidence of the reported sharp increase in capital outflows from Iran?

(d) Is it possible to build a more comprehensive picture of the use of surrogate banks (e.g. in Dubai) for transactions?

(e) Is there evidence of an increase in use of private banks to improve liquidity?

END TEXT OF NON-PAPER

16. (S/NF) Turner said that the paper will, among other things, focus on the selection, sequencing and spacing of targets, and evidence to support same, in future UNSC resolutions. He repeatedly stressed that his paper will be "thoroughly cleared" by all HMG agencies with Iran equities, but he also made clear that it would not be an Joint Intelligence Committee (JIC) product. He added that he will present the substance of his findings, in redacted form, at the International Institute for Strategic Studies symposium June 18 in London on the Iranian economy.

17. (S/NF) Turner said his paper may well conclude that the international community should consider extending sanctions further into the Iranian banking sector. At the same time, Turner noted a risk involved in escalating sanctions too rapidly, arguing that a round of tough sanctions followed by a round of less stringent measures might produce counterproductive "psychological blowback" inside Iran.

18. (S/NF) Comment: Turner's paper, though comprehensive in its scope, will contain specific policy judgments likely to get considerable attention within, and perhaps outside, HMG.

His paper is likely to focus on the long-term nature of the pressure and engagement HMG continues to believe necessary to influence Iranian behavior. End comment.

19. (C/NF) Bio note: Christian Turner is scheduled to go out to Tehran in Summer 2008 as the Deputy Chief of Mission at the UK Embassy.

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